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April 30, 2003

Mr. Orion Yeandel
Regional Contracting Officer
United States Agency for International Development
Bank Center Building Granit Tower, 5th Floor
Szabadsag Ter. 7-9
1944 Budapest Hungary

RE: Contract No. EEU-I-00-99-00015-00, TO No. 810
UI Project 06901-013, Albania Local Government Assistance and Decentralization
Quarterly Task Order Progress and Cost Report, January to March 2003

Dear Mr. Yeandel:

Please find enclosed *Quarterly Task Order Progress and Cost Report, January to March 2003, Albania Local Government Assistance and Decentralization*. This report is required by Sections F.5 and F.6 of our Local Government Assistance Initiative Indefinite Quantity Contract.

In an effort to minimize cost and maximize efficiency in submitting this deliverable, we are planning to submit the report and the manual in soft copy only. We would be pleased to provide a hard copy of either or both documents, if requested.

Please direct any technical questions to Mr. Bart Kennedy at +355-42 568-323 or E-mail at BartKennedy@yahoo.com. Questions of a contractual nature should be addressed to me at (202) 261-5396.

Sincerely,

Maria C. Andrade-Stern

Enclosures

cc: Eric Richardson (CTO, USAID/Albania)
Mike Keshishian (CTO/W, USAID/W)
Bart Kennedy (CoP, UI/Tirana)
USAID Development Clearinghouse
IAC Deliverables File (06901-013)
IAC Chron File

**QUARTERLY TASK ORDER
PROGRESS AND
COST REPORT**

JANUARY TO MARCH 2003

**ALBANIA DECENTRALIZATION
INITIATIVES**

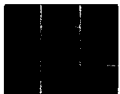
Prepared for



Albania Decentralization Initiatives
United States Agency for International Development
Contract No. EEU-I-00-99-00015-00, Task Order No. 810

Prepared by

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March 2003
UI Project 06901-013

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ATTACHMENT

**QUARTERLY TASK ORDER PROGRESS AND COST REPORT
JANUARY TO MARCH 2003
ALBANIA DECENTRALIZATION INITIATIVES**

Task Order No.: EEU-I-00-99-00015-00, Task Order No. 810

Date of Issuance: September 25, 2000

Amount Obligated Under Task Order: \$4,223,970

Total Potential Task Order Amount: \$4,223,970

Dollars Expended To-date: \$2,909,526

Key Personnel: Bart Kennedy, Chief of Party, E-mail, bart_al2002@yahoo.com or (355) 4 256-832

Task Order Description

In September 2000, the United States Agency for International Development (USAID) contracted the Urban Institute (UI) to implement a three-year local government project in Albania. This project will assist the Government of Albania in implementation of its decentralization strategy and in building capacity of local government units to fulfill their newly mandated responsibilities. It will also support association development and focus on increasing citizen participation in targeted units of local government. The project builds on UI's two previous projects in Albania that fostered the environment for ongoing reforms.

I. HIGHLIGHTS

- Regional meetings conducted in cooperation with local government associations on implementation of new fiscal decentralization laws
- Piloting of planning guide for investments in three cities

II. PROGRESS OF MAJOR ACTIVITIES

DECENTRALIZATION ACTIVITIES (Legal Sustainability and Policy Framework)

Regional Meetings

During the quarter regional meetings were held in cooperation with local government associations, the Ministry of Finance (MoF) and the Ministry of Local Government and Decentralization (MoLGD). UI published a compilation of the local government revenue laws passed in December and their accompanying instructions as well as a table displaying the amounts of unconditional transfers for every unit of local government. The amounts were according to a formula initially adopted for the 2002 budget but revised for the 2003 budget year with assistance from Urban Institute consultants. The compilation of laws and instructions and unconditional transfer amounts were distributed nationally in cooperation with the MoLGD in January. A second printing was made and distributed to members of Parliament and to other units of government upon request as well as to bilateral donor projects.

UI participated with the Albanian Association of Municipalities (AAM) in a series of regional meetings designed primarily to solicit feedback on the implementation of the fiscal decentralization laws enacted in December, and to obtain feedback on improvements of the formula for the 2004 budget cycle. Meetings were conducted in Durres, Lezhe, Fier, Vlore, Korce and Gjirokaster. The main findings are that cooperation between local governments and District Tax Offices (DTOs) is uneven and there is general dissatisfaction with the formula for 2003. The former is certainly due to new roles and responsibilities, as one would expect. But the unevenness is due also to the following: late instructions from the relevant Ministries; a failure of the General Tax Directorate (GTD) to distribute instructions to the DTOs and the amounts of unconditional transfers; delayed registration of small businesses; delays in transferring unconditional funds to local governments, lack of transparency on fiscal capacity of local governments; factors in determining the overall size of the unconditional pool, etc. This has also contributed to the firmly held but erroneous perception of a flawed formula (see next section). Most local governments were confused and dismayed when they received in writing from the DTOs the amount of their unconditional transfer, and it turned out to be a different figure from what was eventually published in a table in the compilation of laws distributed nationally. The Urban Institute inquired of the GTD and discovered that the GTD had not distributed the table to its offices. As a consequence, each DTO was using their best judgment to inform local governments in their jurisdiction the amount of the transfer which turned out, not surprisingly, to be different than those listed in the official table.

Most of the consternation of local governments is due to these factors that are not directly related to the application of the formula. However, because of the late imparting of instructions to local governments and the failure of GTD to communicate necessary information to DTOs, it resulted in the perception that there were deficiencies in the formula.

Based on the feedback from the regional meetings, UI, in cooperation with AAM, is working to establish a "platform" for the 2004 budget in which local governments will have timely formative input to the



budget and its instructions so that implementation of fiscal decentralization will go more smoothly for the 2004 budget.

Formula to Distribute Unconditional Funds to Local Governments

Use of a formula has resulted in a significant increase in the share of the budget over which local governments have discretion. There seems to be widespread acceptance of the formula in this second year of its use. The experience of 2002 will be used in further development and analysis of the formula as the MoF prepares the budget instructions for FY 2004 later this year. This is simply to acknowledge that the formula is an evolving instrument; by no means finished and final. Having local governments postured to “take control” of the formula for 2004 is a sign of much needed progress.

There have been frequent suggestions obtained in various meetings for modifications to the formula for 2004. Many of these deal with the variables in the compensation/equalization aspects of the formula. UI is cooperating with the Albanian Association of Kommunes (AAK) and AAM to explain and enable local governments to make their own projections using the formula. During the quarter meetings were held in Tirana, Elbasan and Durrës with participating contributors from the GTD and MoLGD. Perparim Dervishi and Lindita Oshafi have developed an Excel worksheet that steps local governments through the calculation of their amount of the unconditional transfer. This contributes greatly to transparency and helps clarify those aspects of the formula that local governments feel should be modified to more closely reflect reality. For example, during the regional meetings some municipalities noted the high percentage of the unconditional funds that are required for education and contend that the number of pupils should be factored into the formula. The worksheet is available in paper form (for some communes that do not have computers) and on diskette.

Property Transfer Procedures

During the quarter, four of the pilots received approval for the transfer of State immovable property to their ownership. This process has taken an inordinate amount of time because of the reluctance of local governments to engage in the inventory process and the failure of the Government to fund the Agency, which it created to implement property transfers. The wide variation in degree of completion of the first registration of property at the Registration Offices and failure to cooperate with local governments contributed to the tardiness as well. The latter item was addressed during the quarter with a decision from the Government to make all data and maps freely accessible to inquiring units of local government. UI anticipates distribution of a “how to” manual next quarter that will facilitate more local governments successfully completing the inventory process.

Transfer of Water Responsibility to Local Governments

The real transfer of water responsibility to local governments is still in the throes of ambiguity even though the relevant government organs have approved a policy paper on this, including the Council of Ministers. Many of the water companies have been transformed into “share companies” by the Ministry of Economy with the practical control of them still maintained by the Government. One of the main issues of this transfer is the disposition of the enormous debt accrued to these companies, mainly from past due

electric bills. Until this is resolved local governments will remain reluctant to take over a bankrupt enterprise.

CAPACITY BUILDING (TRAINING FOR LOCAL GOVERNMENTS)

Advanced Budget Training for Local Governments

The basic budget training offered in 2002 covered factors associated with increasing own source revenues, establishing a budget calendar, performance indicators, citizen involvement in the budgeting process, and balancing revenues and expenditures based on service levels. The advanced course designed during the quarter will incorporate the fiscal decentralization laws passed last quarter and focus on service driven revenue sources. A crucial part of this is defining performance indicators. While performance indicators were introduced in the basic course, the advanced course creates the expectation that each city will devise these for the 2004 budget cycle. The advanced course will be offered in three regions next quarter.

Related to this is a planned study tour on local taxes and fees that will be organized and funded by World Learning. The venue for this will be identified next quarter and the study tour conducted the end of the quarter. A recently completed survey of local governments shows that the number one need is additional training on tax administration. The study tour will include representatives from selected local governments and key persons from the GTD.

Planning Guide for Investments (Capital Budgeting)

In 2002 UI introduced a comprehensive capital improvement planning (CIP) activity that was favorably received by a number of the larger municipalities or those, which have received several years of assistance from USAID local government programs. But for the vast majority of cities—that is relatively small and has very little discretionary income after basic expenses are covered—this process seemed not to be useful. So this quarter, UI revised a segment of the CIP to make it more realistic and practical for the greater number of municipalities. It has more focus to it and can produce results within a shorter period of time. In other words, it does not require the level of effort that the complete CIP necessitates. In order to distinguish it from the CIP that most local governments received training in during 2002, it is referred to as a planning guide for investments (PGI).

Five of the UI trainers most skilled in CIP form a core group to provide implementation of the PGI. They have also been instrumental in the design of this initiative. During the second quarter, the trainers will be assigned specific local governments with which to present the PGI. For those cities electing to participate, the trainers will also be responsible for providing assistance in producing the document. This initiative will be taken directly to the majority of the 65 municipalities in Albania.



III. DELIVERABLES AND REPORTS

None at this time

IV. PROBLEMS OR DELAYS

During the quarter the MoLGD key staff were consumed by an effort to introduce new territorial divisions in time for the fall elections. The key advisor to the Minister devoted full time to this effort and selected staff made visits to European countries in preparation for this. Several national meetings were conducted by the MoLGD that included Council of Europe legal consultants. Everything at the MoLGD was put on hold while it moved forward to implement new territorial divisions. In late March, the MoLGD abandoned this initiative and deferred it to being completed in time for the national elections next year. The UI is in agreement that there should be new territorial divisions but that this should be done over a period of years in order to have the requisite studies, analyses, discussions and hearings associated with such a major project.

The fall elections will also cause things to slow significantly later this year. Cities have already informed us that cities will be preoccupied with voter registration beginning in July. The voter lists are derived from the civil registry, which is the responsibility of local governments. The accuracy of the civil registry was a heated source of contention in the local elections in 2000. So perhaps for three months this summer the focus of local officials and staff will be on the election scheduled for October 5. And in the midst of this is the month of August in which things typically "shut down" for all practical purposes. Finally, there is rumor that there will be another change of government before the end of the second quarter. If this occurs, it may incur additional delays.

V. WORK PLANNED NEXT REPORTING PERIOD

- Continuation of regional meetings with AAK on fiscal decentralization laws
- Preliminary work on formula revisions for 2004 unconditional transfers
- Status report on decentralization implementation
- Introduction of "standard setting" activities with selected pilots for the delegated functions in education and health
- Publication and distribution of self-help guide on completing property inventory transfer request to MoLGD
- Implementation of Planning Guide for Investments
- Conduct of advanced budget training in three regions
- Publication of citizen participation handbook
- Conduct of a study tour on taxes and fees in cooperation with World Learning

VI. SPECIFIC ACTION REQUESTED

None at this time